



DEPARTMENT OF HEALTH & HUMAN SERVICES

Office of Inspector General
Office of Audit Services

JAN 09 2002

CIN: A-04-01-05002

REGION IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

Gary Redding, Commissioner
Department of Community Health
Georgia Department of Medical Assistance
2 Peachtree Street, N.W.
Atlanta, Georgia 30303-3159

Dear Mr. Redding:

Enclosed are two copies of the U.S. Department of Health and Human Services (HHS), Office of Inspector General (OIG), Office of Audit Services' report entitled *Review of Clinical Laboratory Services Paid by the Georgia Department of Community Health During the Period of October 1, 1996 Through June 30, 1999*. A copy of this report will be forwarded to the action official noted below for review and any action deemed necessary.

Final determination as to actions taken on all matters reported will be made by the HHS action official named below. We request that you respond to the HHS action official named below within 30 days from the date of this letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.

In accordance with the principles of the Freedom of Information Act, 5 United States Code 552, as amended by Public Law 104-231, OIG, Office of Audit Services' reports are made available to members of the public to the extent information contained therein is not subject to exemptions in the Act (see 45 Code of Federal Register Part 5). As such, within 10 business days after the final report is issued, it will be posted on the World Wide Web at <http://www.hhs.gov/progorg/oig>.

To facilitate identification, please refer to the Common Identification Number (CIN) in all correspondence relating to this report.

Sincerely yours,

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV

Enclosures -- as stated

Page 2 – Gary Redding

Action Official

Eugene A. Grasser

Associate Regional Administrator

Division of Medicaid and State Operations

Centers for Medicare & Medicaid Services

U.S. Department of Health and Human Services

61 Forsyth Street, S.W., Suite 4T20

Atlanta, Georgia 30303-8909

(404) 562-7401

Department of Health and Human Services

**OFFICE OF
INSPECTOR GENERAL**

**REVIEW OF CLINICAL LABORATORY
SERVICES PAID BY THE
GEORGIA DEPARTMENT
OF COMMUNITY HEALTH
DURING THE PERIOD
OF OCTOBER 1, 1996
THROUGH JUNE 30, 1999**



**JANET REHNQUIST
Inspector General**

**JANUARY 2002
A-04-01-05002**

EXECUTIVE SUMMARY

BACKGROUND

Title XIX of the Social Security Act is a Federal/State entitlement program that pays for medical assistance for certain individuals and families with low income and resources. This program, known as Medicaid, became law in 1965 as a cooperative venture, jointly funded by the Federal and State Governments to assist States in furnishing medical assistance to eligible needy persons. Medicaid is the largest source of funding for medical health-related services for America's poorest people.

In the State of Georgia, the Department of Community Health (DCH), Division of Medical Assistance, administers the Medicaid program. Clinical laboratory services are covered under the Medicaid program. These laboratory services include chemistry, hematology and urinalysis tests. Laboratory tests are performed on a patient's specimen to help physicians diagnose and treat ailments. These tests are performed in a physician's office, a hospital laboratory, or in an independent laboratory.

To bill for these services, providers utilize codes published by the American Medical Association in its Physician's Current Procedural Terminology – 4th Edition (CPT-4). These procedure codes are commonly referred to as CPT codes. The diagnosis codes used to report the patient's medical condition are listed in the International Classification of Diseases – 9th Edition – Clinical Modification (ICD-9-CM). Both the CPT-4 and ICD-9-CM are publications widely used by and readily available to all providers of health care services.

State agencies establish the Medicaid reimbursement rates for these claims. The rates established, however, cannot exceed what Medicare would pay for the same service (the maximum allowable amount) in order to qualify for Federal matching funds.

In a report we issued to DCH in March 1996 (Common Identification Number A-04-95-01109), we reported that DCH did not have adequate edits in place to prevent the payment of laboratory claims billed with unbundled or duplicated laboratory services. This report identified overpayments totaling \$3,454,548 (Federal share of \$2,151,967) for Calendar Years 1993 and 1994.

OBJECTIVES

The objectives of our audit were to determine whether:

- the DCH had adequate procedures and controls over the payment of Medicaid claims which contain clinical laboratory tests; and
- Medicaid payments made by the DCH for certain chemistry, hematology and urinalysis tests exceeded what Medicare would have paid for the same services.

After we began our audit, we were notified that the Georgia Department of Audits and Accounts, Medicaid and Local Government Audits Division (hereafter referred to as the Georgia Department of Audits) had just completed a similar internal review and issued a draft report in November 2000 to DCH. The objective, scope and methodology of the Georgia Department of Audits review were essentially the same as our audit.

We reviewed their work and were satisfied with their methodology. We have used the results, to the extent possible, in our report. We did not however, perform an evaluation of the Georgia Department of Audits operations in order to determine if the standards for relying on the work of others was met.

Accordingly, we are required by our policies not to assume responsibility for the results included in this report by the Georgia Department of Audits. In addition, our review results were incorporated into the Georgia Department of Audits' final report issued in April 2001.

Our audit covered paid claims with dates of service during the period of October 1, 1996 through June 30, 1999. The data for these claims were analyzed for hematology, urinalysis and chemistry tests that were subject to various bundling rules.

SUMMARY OF FINDINGS

As in the previous audit, system edits used by DCH were inadequate to prevent and detect improper payments for unbundled and laboratory claims for services rendered from October 1, 1996 through June 30, 1999. As a result, DCH made improper payments totaling \$1,762,835 (Federal portion of \$1,072,639) for services rendered during that period. In addition, DCH officials indicated that edits to prevent these types of improper payments were not implemented until February 1, 2001, so overpayments continued until that time. To address this issue, DCH officials indicated that they have implemented a three-phase process to identify and recoup overpayments for the period October 1, 1996 through January 31, 2001. The Georgia Department of Audits has, however, already estimated that DCH made \$991,295 in improper payments from July 1, 1999 through June 30, 2000.

In its review, the Georgia Department of Audits also noted that, contrary to Federal regulations, DCH made payments in excess of the maximum allowable amount for certain claims. However, its analysis was limited to those payments already identified as errors in the review because of unbundling or duplicate payments. The potential impact of paying providers more than the maximum allowable rate extends to all paid laboratory claims, not just those that were improperly unbundled or duplicated. Consequently, additional overpayments exist related to the reimbursement rates exceeding the maximum allowable amount.

In a response to our inquiries regarding these issues, DCH officials indicated that they have:

- implemented system controls to check for unbundled laboratory claims as of February 1, 2001; and
- corrected the rates identified by the Georgia Department of Audits as being in excess of the maximum allowable amount.

In addition, they indicated that DCH internal auditors would conduct an audit to ensure that all necessary corrections to the rates have been properly identified and made. They were not, however, clear on whether they intend to recoup any overpayments related to this issue.

RECOMMENDATIONS

We concur with the State Georgia Department of Audits' recommendations that DCH:

- make an adjustment on the next Quarterly HCFA-64 Report of Title XIX expenditures in the amount of \$1,762,835 (\$1,072,639 Federal share) for the overpayments identified for the period October 1, 1996 through June 30, 1999.
- continue with its three-phase process of identifying and recouping the overpayments related to unbundled and duplicate laboratory claims for the subsequent period ending February 1, 2001, and make an adjustment on the subsequent HCFA-64 once identified.

In addition, we recommend DCH identify any of the overpayments related to reimbursement rates exceeding the maximum allowable amount since October 1, 1996, adjust any subsequent HCFA-64s accordingly, and recoup any overpayments.

The DCH agreed with the findings in our report and stated that they have taken appropriate action to make Medicaid Management Information Systems (MMIS) system process claims correctly. For periods subsequent to March 31, 1998, the DCH has already initiated recovery of the overpayments identified in this report.

The DCH stated that for claims with dates of service prior to March 31, 1998 the State's record retention requirements were exceeded and that recovery, in their opinion, would not be feasible. We believe the issue of the recovery of overpayments from providers should be resolved between the Centers for Medicare & Medicaid Services (CMS) and DCH. The improper FFP payments should, as required, be adjusted on the HCFA 64 report regardless of collection obstacles encountered by DCH. The auditee's response is summarized in the body of this report and the response, in its entirety, is included in Appendix A of this report.

GLOSSARY OF ABBREVIATIONS AND ACRONYMS

CIN	Common Identification Number
CMS	Centers for Medicare & Medicaid Services
COS	Category of Service
CPT-4	Physician's Current Procedural Terminology – 4 th Edition
DCH	Department of Community Health
HCFA-64	Quarterly Report of Expenditures
ICD-9-CM	International Classification Disease – 9 th Edition – Clinical Modification
MMIS	Medicaid Management Information Systems

TABLE OF CONTENTS

Introduction	1
Background	1
Objectives, Scope and Methodology	2
Findings and Recommendations	3
The DCH Made Overpayments Totaling \$359,942 for Laboratory Tests During the Period October 1, 1996 Through June 30,1997	4
The DCH Made Overpayments Totaling \$170,774 for the period of July 1, 1997 Through June 30, 1999	5
The DCH Made Overpayments Totaling \$1,232,119 for Chemistry Tests From April 1, 1998 Through June 30, 1999	7
The DCH Made Payments That Exceeded the Maximum Allowable Payment	9

INTRODUCTION

BACKGROUND

Title XIX of the Social Security Act is a Federal/State entitlement program that pays for medical assistance for certain individuals and families with low income and resources. This program, known as Medicaid, became law in 1965 as a cooperative venture jointly funded by the Federal and State Governments to assist States in furnishing medical assistance to eligible needy persons. Medicaid is the largest source of funding for medical health-related services for America's poorest people.

In the State of Georgia, the DCH, Division of Medical Assistance, administers the Medicaid program. Clinical laboratory services are covered under the Medicaid program. These laboratory services include chemistry, hematology and urinalysis tests. Laboratory tests are performed on a patient's specimen to help physicians diagnose ailments. The tests are performed in a physician's office [category of service (COS) 43], a hospital laboratory (COS 7), or at an independent laboratory (COS 23).

To bill for these services, providers utilize procedure codes published by the American Medical Association in its Physician's CPT-4. These procedure codes are commonly referred to as CPT codes. The diagnosis codes providers use to report the patient's medical condition are listed in the ICD-9-CM. Both the CPT-4 and ICD-9-CM are publications widely used by and readily available to all providers of health care services.

Each State agency establishes the Medicaid reimbursement rates for these claims. The rates established, however, cannot exceed what Medicare would have paid for the same service (the maximum allowable amount) in order to qualify for Federal matching funds.

Chemistry tests involve the measurement of various chemical levels in the blood. Chemistry tests are frequently performed on automated equipment and are grouped together (bundled) and reimbursed at a panel rate. Chemistry tests are also combined under problem-oriented classifications (referred to as organ panels). Organ panels were developed for coding purposes and are to be used when all of the component tests are performed. Many of the component tests of organ panels are also chemistry panel tests. This situation results in overlap between organ panels and automated chemistry panels.

Hematology tests are performed to count and measure blood cells and their content. Hematology tests that are grouped and performed on an automated basis are classified as profiles. Automated profiles include hematology component tests such as hematocrit, hemoglobin, red and white blood cell counts, platelet count, differential white blood cell counts and a number of additional indices. Indices are measurements and ratios calculated from the results of hematology tests.

Examples of indices are red blood cell width, red blood cell volume and platelet volume. Potential duplicate payments occur when a profile and one or more components of the profile are included on the same bill.

Urinalysis tests involve the measurement of certain components of the sample, which may also include a microscopic examination. Urinalysis tests involve physical, chemical, or microscopic analysis or examination of urine. A urinalysis may be ordered by the physician as a complete test, which includes microscopy, a urinalysis without the microscopy or the microscopy only. A duplicate payment would occur when a complete microscopic exam and separate urinalysis tests are both present on the claim. The separate urinalysis test is considered a duplicate payment.

OBJECTIVES, SCOPE AND METHODOLOGY

The objectives of our audit were to determine whether:

- the DCH had adequate procedures and controls over the payment of Medicaid claims which contain clinical laboratory tests; and
- Medicaid payments for certain chemistry, hematology and urinalysis tests exceeded what Medicare would have paid for the same services.

Our original period for this audit was for the period January 1, 1996 through December 31, 1999. After we began our audit, however, we were notified that the Georgia Department of Audits and Accounts, Medicaid and Local Government Audits Division (hereafter referred to as the Georgia Department of Audits) had just completed a similar internal review and issued a draft report to DCH in November 2000. This review covered the period of October 1, 1996 through June 30, 1999 and was a follow-up review of an Office of Inspector General audit of laboratory service claims paid from July 1, 1993 through September 30, 1996.

Our audit determined that the objective, scope and methodology used by the Georgia Department of Audits review were essentially the same as our audit. We then reviewed their work and were satisfied with their methodology. We have used the results, to the extent possible, in our report.

We did not perform an evaluation of the Georgia Department of Audits operations in order to determine if the standards for relying on the work of others was met. Accordingly, we are required by our policies not to assume responsibility for the results included in this report by the Georgia Department of Audits.

For the latest internal review, the Georgia Department of Audits reviewed paid claims for chemistry, hematology, and urinalysis tests ¹ from three COS (physicians, outpatient hospital and independent laboratories) with dates of service of October 1, 1996 through June 30, 1999. After receiving a copy of the draft report, we reviewed the Georgia Department of Audits working papers to verify accuracy of the work performed to calculate the overpayments identified. We noted some minor discrepancies and made recommendations that were incorporated in the final

¹ Identified by the CPT-4 codes

report issued by Georgia Department of Audits in April 2001. As a result, we were satisfied with the methodology and have incorporated the results into our audit to the extent possible.

Our audit was conducted in accordance with generally accepted government auditing standards. Our fieldwork was conducted in the offices of DCH, the Georgia Department of Audits, and in our offices in Atlanta, Georgia from December 2000 through July 2001.

FINDINGS AND RECOMMENDATIONS

The DCH made overpayments totaling \$1,762,835 to laboratory service providers for the period of October 1, 1996 through June 30, 1999 because of improperly processed laboratory claims. The Federal share of these payments was \$1,072,639. The categories of these overpayments are summarized in **Table 1**.

Table 1
Overpayments Made to Laboratory Service Providers

	10/1/96 through 6/30/97	7/1/97 through 3/31/98	4/1/98 through 6/30/99	Total Overpayment Amount
Chemistry	\$253,252	\$24,362	\$1,232,119	\$1,509,733
Hematology	\$54,135	\$92,367 ⁽¹⁾		\$146,502
Urinalysis	\$52,555	\$54,045 ⁽¹⁾		\$106,600
TOTALS	\$359,942	\$170,774	\$1,232,119	\$1,762,835

(1) Overpayments for hematology and urinalysis claims actually cover the 2-year time period from 7/1/97 through 6/30/99.

These overpayments occurred because DCH's system edits were inadequate to prevent and detect improper payments for unbundled and laboratory claims for services rendered from October 1, 1996 through June 30, 1999. In addition, DCH officials indicated that adequate edits to prevent these types of improper payments were not implemented until February 1, 2001, so overpayments continued until that time. To address our concerns over this issue, DCH officials indicated that they have implemented a three-phase process to identify and recoup overpayments for the period October 1, 1996 through January 31, 2001. The Georgia Department of Audits estimated that DCH made \$991,295 in improper payments from July 1, 1999 through June 30, 2000, but the total amount of additional overpayments that may have occurred until February 1, 2001 has not been quantified.

During its work, the Georgia Department of Audits also noted that, contrary to Federal regulations, DCH made payments in excess of the maximum allowable amount. Its analysis, however, was limited to those payments already identified as errors in the review because of

unbundling or duplicate payments. The potential impact of paying providers more than the maximum allowable rate extends to all paid laboratory claims, not just those that were improperly unbundled or duplicated. As a result, additional overpayments related to the reimbursement rates exceeding the maximum allowable amount have yet to be quantified.

In a response to our inquiries regarding this issue, DCH officials indicated that they have taken corrective action to adjust those rates found to be in excess of the fee schedule. They were not, however, clear on whether they intended to review all reimbursement rates instead of just those identified by the Georgia Department of Audits or if they planned to identify and recoup any overpayments related to this issue.

AUDITEE RESPONSE AND OIG COMMENTS

In a letter dated November 21, 2001, the DCH provided their response to our draft report. The DCH agreed with the findings in our report and stated that they have taken appropriate action to make MMIS system process the claims correctly. For periods subsequent to March 31, 1998, the DCH has already initiated recovery of the overpayments identified in this report. However, the DCH stated that for claims prior to March 31, 1998, the State's record retention was exceeded and recovery, in their opinion, would not be feasible.

We believe the issue of recovery of the overpayments from providers should be resolved between CMS and DCH. The identified improper FFP payments by DCH should, as required, be adjusted on the HCFA 64 report regardless of collection obstacles encountered by DCH.

<p style="text-align: center;">THE DCH MADE OVERPAYMENTS TOTALING \$359,942 FOR LABORATORY TESTS DURING THE PERIOD OCTOBER 1, 1996 THROUGH JUNE 30, 1997</p>

For the period of October 1, 1996 through June 30, 1997, DCH made overpayments totaling \$359,942 for chemistry, hematology and urinalysis laboratory claims because system edits were inadequate to prevent and detect improper payments.

During this period, DCH primarily relied upon the "Edits and Audits" subsystem of its claims processing system to perform prepayment unbundling and duplicate checks. As discussed in other findings, this subsystem has been supplemented in subsequent periods by other methods of reviewing submitted laboratory claims.

To determine the allowable payment amount for the claim, this subsystem utilized 999 system "edits" and "audits" to compare information on the submitted claim with provider, client, CPT-4 code, and diagnostic code information contained in the MMIS. Edits check claims on a prepayment basis, while audits check claims on a post-payment basis.

The previous audit conducted by the Georgia Department of Audits found: (1) no edits in place to identify and deny incorrectly coded laboratory service claims; and (2) no edits had been established to review laboratory claims prior to payment. The DCH has, however, implemented 15 audits that check for unbundled chemistry tests since the previous audit, but none for urinalysis and hematology tests.

The \$359,942 of overpayments occurred because of missing and/or incomplete edits in the “Edits and Audits” subsystem. Because no edits or audits existed for urinalysis and hematology tests, overpayments identified by the Georgia Department of Audits related to these types of tests were consistent between the latest and previous reviews. Further, the Georgia Department of Audits believe that audits implemented for chemistry tests may have some impact in reducing overpayments since the first audit, but it also noted that no edits or audits check for claims submitted by outpatient hospital providers (COS 7).

Recommendation

If DCH intends for the “Edits and Audits” subsystem to continue as an important tool to identify erroneous claims, we recommend that specific edits related to the proper coding of laboratory claims be implemented. In addition, to ensure that the edits and audits are complete (i.e., cover all category of tests and COS) and performing properly, we recommend that DCH review the operation of these edits and audits for a period of time. Ideally, this measure should ensure that they are performing as designed and the claims are being properly paid.

We concur with Georgia Department of Audits recommendation that DCH include on its’ next quarterly HCFA-64 an adjustment of \$359,942 (Federal share \$221,436).

<p style="text-align: center;">THE DCH MADE OVERPAYMENTS TOTALING \$170,774 DURING THE PERIOD OF JULY 1, 1997 THROUGH JUNE 30, 1999</p>
--

For the period of July 1, 1997 through June 30, 1999, DCH made overpayments totaling \$170,774 for chemistry, hematology and urinalysis laboratory claims because of the inadequacy of system edits.

Laboratory claims were not subject to prepayment edits until the “Auto Audits” system was implemented on July 1, 1997. We agree with the Georgia Department of Audits’ conclusions that:

- this implementation appears to have reduced the amount of overpayments for improperly bundled or duplicated hematology, urinalysis, and chemistry tests; and
- to ensure that all laboratory tests are properly paid, however, additional improvements still need to be implemented.

The Georgia Department of Audits analysis of laboratory tests showed:

- a *90 percent decrease* in overpayments for chemistry tests for the 9-month period of July 1, 1997 through March 31, 1998 from the previous 9-month period (October 1, 1996 through June 30, 1997).
- a *slight increase* (3 percent) in overpayments for urinalysis tests for the 24-month period of July 1, 1997 through June 30, 1999 than for the prior 9-month period (October 1, 1996 through June 30, 1997).
- a *70 percent increase* in overpayments for hematology test for the 24-month period than for the prior 9-month period (October 1, 1996 through June 30, 1997).²

Until the implementation of the Auto-Audits system on July 1, 1997, claims containing laboratory tests were not subject to prepayments edits. Two “rules” within this system apply to some hematology, urinalysis and chemistry laboratory test CPT-4 procedure codes. First, Rule 05 denies payment for various procedures when providers also bill other specific procedures for the same recipient and date of service. Second, Rule 27 identifies claims containing individual chemistry laboratory procedure codes that should be grouped together and paid under a single code. Despite these rules, overpayments occurred because the rules were inadequate to identify and deny all improperly coded claims for laboratory tests.

The Georgia Department of Audits’ review of rules within “Auto Audits” system identified several areas that need improvement as follows:

- Rule 05 included many specific coding rules (termed as indexes) that list specific CPT-4 codes to be denied when billed with other codes, but these indexes were in some cases incomplete.
- The “Auto Audits” system lacks an index preventing providers from being reimbursed for unbundled urinalysis procedures. For example, the CMS policies state that if code 81015 is billed with either code 81002 or 81003, the provider should not be paid for the individual tests, only for the appropriate complete urinalysis test.
- Five indexes within Rule 05 of the “Auto Audits” system refer to hematology test procedure codes, but these indexes only partially address CMS policies prohibiting reimbursing providers for unbundled and duplicate hematology tests.

² The Georgia Department of Audits believes that these overpayments are partially attributable to inconsistencies in Federal payment guidelines. They specifically cite conflicting guidance related to hematology tests published in the Medicare Intermediary Manual and in the National Correct Coding Policy Manual for Part B Medicare Carriers.

Recommendation

Although the “Auto Audits” system seems to have been effective in reducing the amount of overpayments for many improperly coded laboratory claims, DCH should modify rules of this system to ensure that edits are established to identify and deny all improperly coded chemistry, hematology, and urinalysis laboratory service claims. We also recommend that DCH include on its’ next quarterly HCFA-64 an adjustment of \$170,774 (Federal share \$104,292) to reflect these overpayments.

THE DCH MADE OVERPAYMENTS TOTALING \$1,232,119 FOR CHEMISTRY TESTS FROM APRIL 1, 1998 THROUGH JUNE 30, 1999
--

The DCH did not make necessary changes in system edits in response to a significant change in CMS policies related to the bundling of various chemistry laboratory tests that became effective April 1, 1998. Consequently, DCH made overpayments totaling \$1,232,119 for the period of April 1, 1998 through June 30, 1999.

Beginning April 1, 1998, CMS policy required providers to submit claims that identified the individual test performed, but the payments to these providers should still be paid at the lower rates associated with the bundled multichannel tests. Since CMS revised the policy, however, DCH paid providers the rate for each automated test instead of the rate for the equivalent bundled multichannel tests.

To correct this problem, DCH updated its Auto-Audits system in February 2000 to rebundle independent automated tests into the appropriate multi-channel test panels. To recoup the overpayments, DCH has, however, only reprocessed claims with dates of service after July 1, 2000.

As a result, claims with dates of services from July 1, 1999 through June 30, 2000 have the same overpayment potential as those claims reviewed with dates of service from April 1, 1998 through June 30, 1999.

As shown in Table 2 (next page), the Georgia Department of Audits identified \$1,232,119 in overpayments for chemistry claims for the time period immediately following the effective date of CMS policy that deleted chemistry multichannel test codes. Prior to April 1, 1998, if multichannel automated tests were performed, providers should have bundled and converted them into appropriate multichannel test codes. These tests codes only reflect the number of tests performed, not the type of tests. In addition, the reimbursement rates for multichannel tests are typically lower than the combined reimbursement rates of each individual test.

Table 2
Chemistry Test Overpayments
4/1/98 through 6/30/99

Category of Service	Overpayment
COS 7 (Outpatient Hospitals)	\$651,222
COS 23 (Independent Laboratories)	\$477,057
COS 43 (Physician's Offices)	\$103,840
TOTAL	\$1,232,119

After April 1, 1998, CMS policy requires providers to submit claims that identify the individual tests performed, but providers should still be reimbursed at the lower rates associated with the bundled multichannel tests. Since the revised CMS policy, however, DCH has reimbursed its providers for each independent automated test rather than the rates associated with the equivalent bundled multichannel tests.

In July 2000, DCH developed updates to its “Auto Audits” system that were necessary to rebundle these independent automated tests into the appropriate multichannel test panels. However, these updates are still being tested and have not yet been used in the claims processing system. As a result, chemistry claims paid during the period July 1, 1999 through June 30, 2000 have the same overpayment potential as those reviewed for the earlier period. The Georgia Department of Audits stated that, due to CMS policy change, the DCH has overpaid chemistry laboratory service providers. We estimated the overpayment to be approximately \$991,295 to its chemistry laboratory service providers.

Recommendation

To identify and recoup this overpayment amount, DCH should update the “Auto Audits” system and reprocess its claims for chemistry laboratory tests with dates of service on or after April 1, 1998. For the \$1,232,119 (Federal share \$746,911) overpayment already identified, DCH should adjust its next quarterly HCFA-64. In addition, DCH should identify the exact amount of overpayments for subsequent periods and adjust subsequent HCFA-64s by the applicable amounts.

<p style="text-align: center;">THE DCH MADE PAYMENTS THAT EXCEEDED THE MAXIMUM ALLOWABLE PAYMENT</p>

The DCH paid more than the maximum allowable rates for laboratory claims that were published in DCH's Schedule of Maximum Allowable Payments and that are allowed by CMS.

The CMS annually establishes maximum reimbursement rates for Medicare and requires that Medicaid reimbursement for clinical diagnostic laboratory tests not exceed these established rates. The DCH reflects this CMS requirement in its policies and in establishing statewide Medicaid maximum allowable reimbursement rates. These rates are published in DCH's "Schedule of Maximum Allowable Payments."

As shown in **Table 3**, DCH's published rates match the maximum allowable CMS rate. The Georgia Department of Audits identified, however, many claims in which providers were paid more than these maximum allowable amounts. Improper payments were commonly paid to laboratory providers across all three COS (outpatient hospitals, independent laboratories and physician offices).

For those claims identified as errors because of unbundling or duplicate services, the Georgia Department of Audits performed an analysis of the actual payment amounts, the maximum allowable CMS rates and the rates published by DCH. The Georgia Department of Audits did not, however, calculate the amount of any overpayments due solely to the payment rate discrepancy. In addition, the potential impact of paying providers more than the maximum allowable rate extends to all paid laboratory claims, not just those that were improperly unbundled or duplicated. As a result, additional overpayments not yet identified exist related to the reimbursement rates exceeding the maximum allowable amount.

In a response to our inquiries regarding this issue, DCH officials indicated that they have taken corrective action to correct those rates that were found to be in excess of the fee schedule. In addition, they indicated that DCH internal auditors would conduct an audit to ensure that all necessary corrections to the rates have been properly identified and made. They were not, however, clear on whether they intended to: (1) to review all laboratory reimbursement rates (not just those identified by the Georgia Department of Audits) to determine if they were in excess of the maximum allowable amount; or (2) recoup any overpayments related to this issue.

Table 3
Examples of Actual Payment Rates
Exceeding Allowable Rates

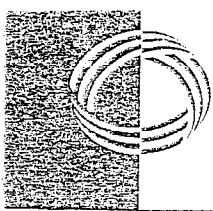
CPT	CMS (for Georgia)	DCH Published	DCH Actually Paid
Urinalysis			
81000	\$4.37	\$4.37	\$4.47
81002	\$3.54	\$3.54	\$3.62
81003	\$3.10	\$3.10	\$3.18
81015	\$4.20	\$4.20	\$4.30
Hematology			
85021	\$7.72	\$7.72	\$7.90
85023	\$11.71	\$11.71	\$11.99
85027	\$8.95	\$8.95	\$9.16
85007	\$4.67	\$4.67	\$4.87
85013	\$3.27	\$3.27	\$3.34
85048	\$3.52	\$3.52	\$3.62
85595	\$6.18	\$6.18	\$6.33
Chemistry			
80091	\$18.45	\$18.45	\$18.89
82310	\$7.12	\$7.12	\$7.28
82565	\$7.07	\$7.07	\$7.24
82977	\$9.95	\$9.95	\$10.23
84550	\$6.25	\$6.25	\$6.40

Recommendation

We recommend DCH identify the overpayments related to reimbursement rates exceeding the maximum allowable amount since October 1, 1996, adjust any subsequent HCFA-64s accordingly, and recoup any overpayments.

- - - - -

Final determination as to actions taken on all matters reported will be made by the HHS Action Official named on the second page of the letter preceding this report. We request that you respond to the Action Official within 30 days from the date on the letter. Your response should present any comments or additional information that you believe may have a bearing on the final determination.



Gary B. Redding
Commissioner
404.656.4507
404.651.6880 fax

November 21, 2001

Charles J. Curtis
Regional Inspector General
for Audit Services, Region IV
61 Forsyth Street, SW
Atlanta, GA 30303-8909

RECEIVED

NOV 21 2001

Office of Audit and

Re: CIN: A-04-01-05002

Dear Mr. Curtis:

We have reviewed your letter, dated October 23, 2001, and accompanying draft report titled "Review of Clinical Laboratory Services Paid by the Georgia Department of Community Health During the Period of October 1, 1996 through June 30, 1999."

In the paragraphs below, we have addressed the draft report's recommendations in the sequence presented in the draft report. As requested, we have addressed a status of actions taken or contemplated in our response to you.

1. Recommendation on Page 5:

The Department of Community Health (DCH) Laboratory Services program staff, working with the DCH Systems management staff, has taken appropriate action to make changes to the Medicaid Management Information System (MMIS) and "Auto Audit" claims processing system. Corrections involving multi-channel laboratory tests were completed in July 2000. Other corrections and additions were completed in January 2001. Auto Audit revisions addressing the bundling of hematology and urinalysis procedure codes were completed in September 2001.

Please note that the following DCH policy was in effect throughout the period you reviewed:

Providers were required to "maintain such written records as are necessary to disclose fully the extent of such services provided and the medical necessity for the provision of such services, for a minimum of three years after the date of service." See the attached Section 106.19 (a) from Part I of the Policies and Procedures manual applicable to all providers.

In the context of this policy, we do not consider recoupment feasible for payments made from October 1, 1996, through June 30, 1997. Any DCH recoupment process must allow all providers to exercise administrative review and appeal rights. Because we could not compel providers to produce records supporting these claim payments, we could not conduct a complete and impartial administrative review and appeal process. Because the recoupment is not feasible, adjustment of the HCFA-64 report would be inappropriate.

2. Recommendation on Page 6:

The DCH Laboratory Services program staff, working with the DCH Systems management staff, has taken appropriate action to make changes to the Medicaid Management Information System (MMIS) and "Auto Audit" claims processing system. Corrections involving multi-channel laboratory tests were completed in July 2000. Other corrections and additions were completed in January 2001. Auto Audit revisions addressing the bundling of hematology and urinalysis procedure codes were completed in September 2001.

Please note that the following DCH policy was in effect throughout the period you reviewed:

Providers were required to "maintain such written records as are necessary to disclose fully the extent of such services provided and the medical necessity for the provision of such services, for a minimum of three years after the date of service."

In the context of this policy, we do not consider recoupment feasible for payments made from July 1, 1997, through March 31, 1998. Any DCH recoupment process must allow all providers to exercise administrative review and appeal rights. Because we could not compel providers to produce records supporting these claim payments, we could not conduct a complete and impartial administrative review and appeal process. Because the recoupment is not feasible, adjustment of the HCFA-64 report would be inappropriate.

To address recoupment problems related to claim payments subsequent to March 31, 1998, the DCH Laboratory Services program staff is requesting additional information from the Georgia Department of Audits and Accounts (DOAA).

There appears to be an inconsistency in the Medicare and Medicaid criteria for the bundling of hematology procedures. This problem was identified by the review performed by the State Auditors as they reported that two federal publications supplied conflicting payment criteria for denying payments. As a result of this finding the auto audit process was updated to appropriately bundle hematology

and urinalysis procedures that are performed on the same date of service for the same recipient. The DCH feels the inconsistency in billing instructions is confusing to the providers and recovery should not be made until CMS (the former HCFA) resolves this problem. DCH made revisions to the auto audit system that was completed in September 2001.

3. Recommendation on Page 8:

The DCH Laboratory Services program staff, working with the DCH Systems management staff, has taken appropriate action to make changes to the Medicaid Management Information System (MMIS) and "Auto Audit" claims processing system. Corrections involving multi-channel laboratory tests were completed in July 2000. Other corrections and additions were completed in January 2001. Auto Audit revisions addressing the bundling of hematology and urinalysis procedure codes were completed in September 2001.

After summarizing supporting result details obtained from DOAA, we conclude that this estimated overpayment total is associated with approximately 800 providers and over 16,000 pages of documentation. For the overwhelming majority of these providers, the potential recoupment is relatively small. The cost to pursue such amounts would significantly exceed the benefit of the recovery.

We project that approximately 85% of the recoupment (over \$1 million) is associated with only 55 (less than 7%) of the providers. We project that the average potential recoupment associated with the remaining providers is less than \$275 per provider. (See Phase II response at the end of this letter).

In consideration of this information, the appropriate action plan appears to be a meeting of Centers for Medicare and Medicaid Services staff with Alan Sacks of our staff to discuss the pursuit of recoupment from only those providers with the largest potential overpayments. The goal of this discussion would be to reach an agreement on the number of providers (those with the largest potential overpayment amounts) targeted for actual recoupment efforts. Once we reach such an agreement, adjustment of the HCFA-64 report would be appropriate.

4. Recommendation on Page 10:

The DCH Laboratory Services program staff, working with the DCH Systems management staff, has corrected DCH payment rates found to exceed the maximum rates allowed under the Medicare program.

Charles J. Curtis
Page 4
November 21, 2001

A separate DCH unit, Internal Audit & Program Evaluation, is planning a review to gather evidence about the effectiveness of these changes.

Please note that the following DCH policy was in effect throughout the period you reviewed:

Providers were required to "maintain such written records as are necessary to disclose fully the extent of such services provided and the medical necessity for the provision of such services, for a minimum of three years after the date of service."

In the context of this policy, we do not consider recoupment feasible for payments made from October 1, 1996, through March 31, 1998. Any DCH recoupment process must allow all providers to exercise administrative review and appeal rights. Because we could not compel providers to produce records supporting these claim payments, we could not conduct a complete and impartial administrative review and appeal process. Because the recoupment is not feasible, adjustment of the HCFA-64 report would be inappropriate.

To address recoupment problems related to claim payments subsequent to March 31, 1998, the DCH Laboratory Services Program staff is requesting additional information from the Georgia Department of Audits and Accounts (DOAA).

There appears to be an inconsistency in the Medicare and Medicaid criteria for the bundling of hematology procedures. This problem was identified by the review performed by the State Auditors as they reported that two federal publications supplied conflicting payment criteria for denying payments. As a result of this finding the auto audit process was updated to appropriately bundle hematology and urinalysis procedures that are performed on the same date of service for the same recipient. The DCH feels the inconsistency in billing instructions is confusing to the providers and recovery should not be made until CMS (the former HCFA) resolves this problem. DCH made revisions to the auto audit system that was completed in September 2001.

Thank you for this opportunity to respond to your draft report. We would also like to use this opportunity to supply you with updated information specifically addressing the three-phase recoupment strategy outlined in our letter, dated July 3, 2001, to Mr. Tim Crye of your office.

Phase I: Recoupment for overpayments for the period July 1, 2000, to January 31, 2001, has been completed.

Phase II: This phase is incomplete because of unexpected MMIS malfunctions encountered when attempting to reprocess old claims which triggered edits and audits

Charles J. Curtis
Page 5
November 21, 2001

which were not applicable at this late date. We are considering methods for recouping these overpayments without using the MMIS to reprocess the claims. This Phase II operation is addressed in our response to the recommendations on Page 8. If any part of the overpayments beginning April 1, 1998, are affected by the 3 year record retention required of providers, additional adjustments may be necessary concerning recoupment.

Phase III: We have determined that recoupment of these payments is not feasible because we would not be able to offer providers a complete and impartial administrative review and appeal process. Providers were required to retain claim documentation for three years. Without claim documentation, providers could not exercise their rights to dispute recoupments. Without claim documentation, we could not substantiate recoupment demands or adjudicate payment disputes related to these claims.

If you need additional information, please contact Alan Sacks, Audit Coordinator, at (404) 657-7113.

Sincerely,


Gary B. Redding

GR:rj

cc: Mark Trail
Edwinlyn Heyward
Richard Jones
Alan Sacks

Attachments

- 106.18 not seek reimbursement from the recipient or other interested party from claims submitted to the Department for which payments subsequently are denied, reduced, recouped, or refunded due to the provider's failure to comply with departmental policies and procedures (e.g., timely submission of claims, incorrect billing, determination that services were not medically necessary, etc.) or due to the provider's receipt of payment from a third party.
- 106.19 a) maintain such written records as are necessary to disclose fully the extent of services provided and the medical necessity for the provision of such services, for a minimum of three years after the date of service. Records must, at a minimum, reflect the date of service, patient name and medical history, the service provided, the diagnosis and the prescribed drugs or treatment ordered, and the signature of the treating provider.

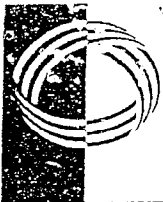
NOTE: Certain programs may have more stringent documentation requirements. Please reference Part II (and Part III where applicable) of the applicable Policies and Procedures manual.

The perforated portion of the eligibility certification entitled Georgia Medicaid Pharmacy Record must be maintained by pharmacies for a minimum of three years after the date of service regardless of whether the provider continues enrollment in the Georgia Medicaid program.

- b) comply in a timely fashion with all requests for records, information, and documentation made by the Department, its authorized representatives and agents, or the Secretary of the U.S. Department of Health and Human Services, related to services provided under the Medical Assistance Program.
- c) make available for on-site audits by the Department or its agents all records related to services for which claims are submitted to the Department (including private-pay invoices). Providers using computerized information systems for accounting or other purposes must make this information available in a suitable electronic format if requested by the Department or its agents.

Rev.
10/98

- 106.20 adhere to all provisions of Part I and II (and III if applicable) of this manual, including all revisions and additions thereto.
- 106.21 not have been terminated from or refused enrollment by the Department in the Medical Assistance Program for any reason set forth in Section 402 within one year prior to the date of application, or within a period otherwise specified by the Department.



GEORGIA DEPARTMENT OF
COMMUNITY HEALTH

Russ Toal, Commissioner

Roy E. Barnes, Governor

2 Peachtree Street, NW, 40th Floor
Atlanta, GA 30303-3159
www.communityhealth.state.ga.us

Division of Medical Assistance
Gary B. Redding, Director
404.656.7645
404.651.6880 Fax

July 3, 2001

Tim Crye, Auditor
Office of Inspector General
Office of Audit Services, Region IV
Room 3T41
61 Forsyth Street, S.W.
Atlanta, Georgia 30303-8909

Dear Mr. Crye:

The purpose of the letter is to provide The Office of Inspector General (OIG) with the status of the Department of Community Health's (DCH) progress of correcting the overpayments detailed in the report entitled Internal Review that was conducted for the DCH by the Department of Audit and Accounts Medicaid and Local Government Audits Division for the Laboratory Services Program dated April 2001.

In order to recover the amounts identified on the audit, DCH has decided to recoup overpayments for laboratory services in three phases due to the high volume involved. The three phases shown below are identified for the recoupment process.

Phase I recoupment covers the period July 1, 2000, to January 31, 2001, which represents a period after the report. Beginning February 1, 2001, our payment system has been corrected to automatically account for bundling and unbundling considerations in laboratory claims processing. This process was completed with the April 23, 2001, payment cycle.

Phase II of the recoupment process will cover the period in the report from April 1, 1998 through June 30, 2000. This recoupment process started in the June 11, 2001 payment cycle and is expected to continue weekly through September of this year.

Phase III relates to the period of October 1, 1996 through March 31, 1998. We are in the process of trying to develop the best approach to recover overpayments for this period. The problem relates to the age of the claims and that they have been purged from our system. You will be given an update as soon as we determine the best method to retrieve the claims information for this period. This payment recovery represents approximately \$530,716 of the \$1,762,835 the report identifies for recovery purposes.

Tim Crye, Auditor
Page 2
July 3, 2001

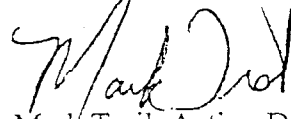
DCH has taken corrective action to correct the rates which were found exceeding the maximum allowables. The corrections will be included in the recoupment process for the period indicated in the report. For your information DCH will conduct an internal audit to ensure that all corrections have been properly identified and have been made.

As recommended in the report we will obtain the clarification from HCFA relating to the criteria for the processing of hematology claims since there is a difference in the guidelines published in the Medicare Intermediary Manual and the National Correct Coding Policy Manual for Part B Medicare Carriers for hematology procedures. This will be done to ensure that the correct approach is taken.

We appreciate the opportunity that you have given us to provide you with an update on DCH's recoupment efforts. According to our conversations, this response will be included in your report.

If you have any questions, please do not hesitate to call or contact us.

Sincerely,

A handwritten signature in dark ink, appearing to read 'Mark Trail', written over a horizontal line.

Mark Trail, Acting Director

cc: Edwinlyn Heyward
Richard R. Jones
Alan Sacks
Ernie Reynolds